

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Brown City Area Fire Authority	County Sanilac County
Fiscal Year End March 31, 2007	Opinion Date May 31, 2007	Date Audit Report Submitted to State June 1, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Lehn L. King, C.P.A.		Telephone Number 989-635-3113		
Street Address 3531 Main Street		City Marlette	State MI	Zip 48453
Authorizing CPA Signature 		Printed Name Lehn King		License Number A248871

Brown City Area Fire Authority

Sanilac County, Michigan

Annual Financial Report

March 31, 2007

May 31, 2007

Brown City Area Fire Authority
Sanilac County, Michigan

Fire Authority Board:

In accordance with your request, I have made an examination of the financial statements of the Brown City Area Fire Authority for the fiscal year ended March 31, 2007. During the course of my examination, no material items came to my attention.

From an overall viewpoint, the Brown City Area Fire Authority is in very good financial condition. The financial records maintained by the Fire Authority are in good order.

I have submitted the necessary copies of the audit report to the State of Michigan.

I thank the Fire Authority officials for the cooperation I received in the completion of this examination.

Sincerely,

Lehn King

Lehn L. King
Certified Public Accountant

Brown City Area Fire Authority

Annual Financial Report
For The Fiscal Year Ended March 31, 2007

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Board Members

Brown City Area Fire Authority

Sanilac County, Michigan

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown City Area Fire Authority, Michigan as of and for the year ended March 31, 2007 which collectively comprise the Brown City Area Fire Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Brown City Area Fire Authority, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown City Area Fire Authority, Michigan as of March 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brown City Area Fire Authority, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Brown City Area Fire Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Lehn King

Lehn L. King

Certified Public Accountant

May 31, 2007

Brown City Area Fire Authority

Brown City, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER

Our discussion and analysis of the Brown City Area Fire Authority's financial performance provides an overview of the Fire Authority's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Fire Authority's financial statements.

Financial Highlights

The Fire Authority is in good financial position. The Fire Authority's fund balances in the Operating and Equipment Reserve Funds as of March 31, 2007, were \$59,451 and \$100,868, respectively.

Using this Report

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No.34. GASB Statement 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the Fire Authority's annual report.

The Fire Authority as a Whole

The Brown City Area Fire Authority's fund balances are as follows:

	March 31, 2007	March 31, 2006
Fire Operating	\$ 59,451	\$ 52,982
Equipment Reserve Fund	100,868	84,943
Total for Fire Authority	<u>\$ 160,319</u>	<u>\$ 137,925</u>

Brown City Area Fire Authority

Brown City, Michigan

Governmental Activities

The Brown City Area Fire Authority's Revenues and Expenditures can be summarized as follows:

	Fire Operating Fund		Equipment Reserve Fund	
	March 31,		March 31,	
	2007	2006	2007	2006
Fund Balance - Beginning of Year	\$ 52,984	\$ 40,964	\$ 84,944	\$ 69,805
Revenue Collected				
Operating Fees	95,020	97,205	-	-
Equipment Reserve Fees	-	-	13,170	13,170
Interest Earnings	3,744	2,411	2,754	1,969
Donations	3,639	3,230	-	-
Other	727	26,319	-	-
Transfers	-	-	-	-
Total Revenue Collected	103,130	129,165	15,924	15,139
Expenditures				
Public Safety - Fire	80,818	73,670	-	-
Capital Outlay	-	27,633	-	-
Debt Service	15,842	15,842	-	-
Transfers	-	-	-	-
Total Expenditures	96,660	117,145	-	-
Fund Balance - End of Year	\$ 59,454	\$ 52,984	\$ 100,868	\$ 84,944

Brown City Area Fire Authority

Brown City, Michigan

Economic Factors and Next Year's Budget and Rates

The Brown City Area Fire Authority's 2007/2008 adopted budget is as follows:

	Fire Operating Fund		Equipment Reserve Fund	
	March 31,		March 31,	
	2008	2007	2008	2007
Revenue				
Operating Fees	107,710	95,020	-	-
Equipment Reserve Fees	-	-	13,170	13,170
Interest Earnings	4,200	3,000	2,000	800
Other	4,100	4,730	-	-
Transfers	-	-	-	-
Total Revenue Collected	116,010	102,750	15,170	13,970
Expenditures				
Public Safety - Fire	90,110	80,850	15,170	13,970
Capital Outlay	10,000	6,000	-	-
Debt Service	15,900	15,900	-	-
Transfers	-	-	-	-
Total Expenditures	116,010	102,750	15,170	13,970
Net Over/Under Budget	\$ -	\$ -	\$ -	\$ -

Contacting the Fire Authority

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Fire Authority's finances and to demonstrate the Fire Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Fire Authority at the Brown City Hall located in Brown City, Michigan or by telephone at (810) 346-2325.

James Groat, Jr.
Brown City Area Fire Authority Chief

Brown City Area Fire Authority

Statement of Net Assets (Deficit)

March 31, 2007

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Cash & Cash Equivalents	\$ 167,480.78
Capital Assets (Net of Accumulated Depreciation)	<u>348,461.17</u>
Total Assets	515,941.95
<u>Liabilities</u>	
Accounts Payable	\$ 7,161.99
Current Portion of Long-Term Debt	14,357.00
Long-Term Debt	<u>18,597.38</u>
<u>Total Liabilities</u>	<u>40,116.37</u>
Net Assets (Deficit)	
Invested in Capital Assets - Net of Related Debt	315,506.79
Unrestricted	<u>160,318.79</u>
<u>Total Net Assets (Deficit)</u>	<u><u>\$ 475,825.58</u></u>

The notes are an integral part of the statements.

Brown City Area Fire Authority

Statement of Activities
For the Year Ended March 31, 2007

		Program Revenues			Net (Expense) Revenue & Changes in Net Assets
		Charges for	Operating	Capital	Primary Government
	Expenses	Services	Grants & Contributions	Grants & Contributions	Governmental Activities
<u>Functions/Programs</u>					
Primary Government:					
Governmental Activities:					
Public Safety	\$ 107,755.46	\$ 108,190.00	\$ -	\$ -	\$ 434.54
Interest on Long-Term Debt	2,124.45	-	-	-	(2,124.45)
<u>Total Governmental Activities</u>	<u>\$ 109,879.91</u>	<u>\$ 108,190.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,689.91)</u>
General Revenues:					
Interest					6,497.86
Donations					3,639.46
Other Revenues					727.00
Transfers					-
Total General Revenues, Special Items & Transfers					<u>10,864.32</u>
Change in Net Assets					9,174.41
Net Assets (Deficit) - Beginning of Year					<u>466,651.17</u>
Net Assets (Deficit) - End of Year					<u>\$ 475,825.58</u>

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds

Balance Sheet

March 31, 2007

	Fire Operating Fund	Equipment Reserve Fund	Total Governmental Funds
<u>Assets</u>			
Cash & Certificates of Deposit	\$ 66,613.14	\$ 100,867.64	\$ 167,480.78
<u>Total Assets</u>	\$ 66,613.14	\$ 100,867.64	\$ 167,480.78
<u>Liabilities & Fund Equity</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 7,161.99	\$ -	\$ 7,161.99
<u>Total Liabilities</u>	7,161.99	-	7,161.99
<u>Fund Equity</u>			
Fund Balances			
- Unreserved & Undesignated	59,451.15	100,867.64	160,318.79
<u>Total Fund Balances</u>	59,451.15	100,867.64	160,318.79
<u>Total Liabilities & Fund Equity</u>	\$ 66,613.14	\$ 100,867.64	\$ 167,480.78

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds

Reconciliation of Fund Balances to the Statement of Net Assets (Deficit) For The Year Ended March 31, 2007

Total Fund Balances for Governmental Funds	\$ 160,318.79
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Amounts reported for Governmental Activities in the Statement of
Net Assets (Deficit) are different because:

Capital Assets used in Governmental Activities are not Financial Resources and are not reported in the Funds	348,461.17
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Long-Term Bonds Payable are not due and payable in the current period and are not reported in the Funds	(32,954.38)
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Accrued Interest Payable is not reported in the Funds	<u>-</u>
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Net Assets of Governmental Activities	<u><u>\$ 475,825.58</u></u>
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Brown City Area Fire Authority
Governmental Funds
Statement of Revenues, Expenditures, And Changes
in Fund Balances
For The Year Ended March 31, 2007

	Fire Operating Fund	Equipment Reserve Fund	Total Governmental Funds
<u>Revenues</u>			
Operating Fees	\$ 79,120.00	\$ -	\$ 79,120.00
Equipment Reserve Fees	15,900.00	13,170.00	29,070.00
Interest Earnings	3,743.61	2,754.25	6,497.86
Donations	3,639.46	-	3,639.46
Other Revenues	727.00	-	727.00
<u>Total Revenues</u>	<u>103,130.07</u>	<u>15,924.25</u>	<u>119,054.32</u>
<u>Expenditures</u>			
Public Safety	80,818.48	-	80,818.48
Capital Outlay	-	-	-
Debt Service - Principal	13,718.00	-	13,718.00
Debt Service - Interest	2,124.45	-	2,124.45
<u>Total Expenditures</u>	<u>96,660.93</u>	<u>-</u>	<u>96,660.93</u>
Excess of Revenues Over (Under) Expenditures	6,469.14	15,924.25	22,393.39
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In (Out)	-	-	-
Net Change in Fund Balances	6,469.14	15,924.25	22,393.39
<u>Fund Balances - Beginning of Year</u>	<u>52,982.01</u>	<u>84,943.39</u>	<u>137,925.40</u>
<u>Fund Balances - End of Year</u>	<u>\$ 59,451.15</u>	<u>\$ 100,867.64</u>	<u>\$ 160,318.79</u>

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For The Year Ended March 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 22,393.39
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Amounts reported for Governmental Activities in the Statement of
Activities are different because:

Governmental Funds report Capital Outlays as Expenditures in the Statement of Activities, these costs are capitalized and allocated over their estimated useful lives as Depreciation	-
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Repayment of Bond Principal is an Expenditure in the Governmental Funds, but not in the Statement of Activities (where it reduces Long-Term Debt)	13,718.00
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Interest Expense is reported in the Statement of Activities when a Liability is incurred; they are reported in the Governmental Funds only when payment is due	-
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Depreciation is an Expenditure for the Statement of Activities, but is not reported in the Governmental Funds	<u>(26,936.98)</u>
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Net Assets of Governmental Activities	<u><u>\$ 9,174.41</u></u>
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Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2007

The accounting methods and procedures adopted by the Brown City Area Fire Authority, Sanilac County, Michigan, conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Fire Authority's Comprehensive Annual Financial Report.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Brown City Area Fire Authority was created on February 10, 1995, by the City of Brown City and the Townships of Burnside, Flynn, Lynn, and Maple Valley. The Authority operates under a joint five member boards consisting of one (1) representative from the City and four (4) from the Townships, for the purpose of providing total fire protection to the City and various Townships.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Brown City Area Fire Authority is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Brown City Area Fire Authority.

Government-wide and Fund Statements Fund

The Government-wide Financial Statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all the nonfiduciary activities of the Fire Authority (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Fire Authority reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Equipment Reserve Fund - The Equipment Reserve Fund is used to account for equipment acquisitions.

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2007

Measurement Focus and Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenues, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Fire Authority. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Cash - The Fire Authority does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Fire Authority's investments.

Investments - Debt securities are valued at cost since it is generally the policy of the Fire Authority to hold such investments until they mature.

Due to and Due from Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Capital Assets - Capital assets, which include buildings and equipment, are reported in the applicable governmental column in the Government-wide Financial Statements. Capital assets are defined by the Fire Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings & Building Improvements	20 to 40 years
Machinery & Equipment	3 to 10 years

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2007

Long-Term Obligations - In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Accounting Changes

GASB Statement No. 34 – Effective April 1, 2004, the Fire Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the Fire Authority's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Fire Authority's overall financial position and results of operations has been included.
- Government-wide Financial Statements (statement of net assets (deficit) and statement of activities) prepared using full accrual accounting for all of the Fire Authority's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets (deficit) includes assets not previously accounted for by the Fire Authority as well as assets previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

2. Fire Protection Agreement

On February 10, 1993, the City of Brown City and the Townships of Burnside, Flynn, Lynn, and Maple Valley, entered into an agreement to create the Brown City Area Fire Authority for the purpose of providing fire protection services. The Fire Authority operates under a five (5) member board composed of City and Township representatives who have the power to purchase, maintain, and operate the Authority as they see necessary.

Under the agreement, each municipality shall pay its proportional share of the operating expenses, excluding depreciation, plus any fixed assets purchased during the period, based upon a formula of population, state equalized evaluation and fire usage.

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2007

2. Fire Protection Agreement - Continued

The agreement was renegotiated effective April 1, 1995. The agreement specifies the proportional cost sharing annual fund contributions. The agreement will remain in force unless terminated by a vote of three (3) of the municipalities.

3. Stewardship, Compliance, and Accountability

Budgetary Information

The Fire Authority is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds, Debt Service Funds, Capital Project Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

In the body of the financial statements, the Fire Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The budget is used by the Fire Authority Board as a management tool during the year for all budgetary funds. The budgets are adopted on a cash basis, which is not consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level. Budgets for the General Fund and the major Special Revenue Funds, Debt Service Funds, and Capital Project Funds are presented in the required supplemental information.

During the year ended March 31, 2007, the Fire Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
<u>Fire Operating Fund</u>			
Salaries	\$ 24,000	\$ 25,101	\$ 1,101
Operating Supplies	6,960	7,225	265

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2007

4. Cash and Cash Equivalents

In accordance with Michigan Compiled Laws, the Authority is authorized to invest as follows:

- a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the Government National Mortgage Association.
- b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union is eligible to be a depository of surplus funds belonging to the State under Sections 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States Banks.
- f) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit union, and savings and loan association. Deposits of the Authority are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Authority.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws do not allow collateralization of governmental deposits.

As of March 31, 2007, the Authority's cash and cash equivalents consist of checking, savings, and certificates of deposit accounts with a carrying balance of \$167,481, of which \$100,000 is insured by the FDIC.

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2007

5. Capital Assets

Capital Assets activity of the Fire Authority's governmental activities (and business-type) was as follows:

	Balance April 1, 2006	Additions	Disposals & Adjustments	Balance March 31, 2007
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings & Building Improvements	\$ 188,712	\$ -	\$ -	\$ 188,712
Machinery & Equipment	363,512	-	-	363,512
Total Capital Assets being Depreciated	552,224	-	-	552,224
Accumulated Depreciation:				
Buildings & Building Improvements	48,992	3,774	-	52,766
Machinery & Equipment	127,834	23,163	-	150,997
Total Accumulated Depreciation	176,826	26,937	-	203,763
Net Capital Assets	\$ 375,398	\$ (26,937)	\$ -	\$ 348,461

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 26,937
Total Governmental Activities	<u>\$ 26,937</u>

6. Long-Term Debt

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds & Contracts						
Fire Hall Construction						
Amount of Issue - \$163,500						
Maturing through 2009	4.50%	\$15,842	\$ 46,690	\$ (13,718)	\$ 32,972	\$ 14,357
Total			<u>\$ 46,690</u>	<u>\$ (13,718)</u>	<u>\$ 32,972</u>	<u>\$ 14,357</u>

Annual debt service requirements to maturity for the above governmental bond and contract obligations are as follows:

Years Ending March 31,	Governmental Activities		
	Principal	Interest	Total
2008	\$ 14,357	\$ 1,485	\$ 15,842
2009	15,003	839	15,842
2010	3,612	164	3,776
Total	<u>\$ 32,972</u>	<u>\$ 2,488</u>	<u>\$ 35,460</u>

Required Supplemental Information

Brown City Area Fire Authority

Required Supplemental Information

Budgetary Comparison Schedule

Fire Authority Operating Fund

For The Year Ended March 31, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Amended Budget</u>
<u>Revenues</u>				
Operating Fees				
Burnside Township	\$ 26,355.00	\$ 26,355.00	\$ 26,354.87	\$ (0.13)
Flynn Township	10,404.00	10,404.00	10,404.28	0.28
Lynn Township	5,285.00	5,285.00	5,285.22	0.22
Maple Valley Township	17,897.00	17,897.00	17,896.94	(0.06)
City of Brown City	19,179.00	19,179.00	19,178.69	(0.31)
Interest	3,800.00	3,800.00	3,743.61	(56.39)
Debt Reserve	15,900.00	15,900.00	15,900.00	-
Donations	3,640.00	3,640.00	3,639.46	(0.54)
Other	750.00	750.00	727.00	(23.00)
<u>Total Revenues</u>	<u>103,210.00</u>	<u>103,210.00</u>	<u>103,130.07</u>	<u>(79.93)</u>
<u>Expenditures</u>				
Salaries	24,000.00	24,000.00	25,101.00	(1,101.00)
Payroll Taxes	4,000.00	4,000.00	1,950.19	2,049.81
Operating Supplies	6,910.00	6,960.00	7,225.38	(265.38)
Professional Services	1,000.00	1,000.00	1,000.00	-
Telephone	950.00	950.00	810.13	139.87
Gas & Oil	4,000.00	3,500.00	3,233.20	266.80
Insurance	18,750.00	20,950.00	19,206.08	1,743.92
Utilities	6,000.00	6,300.00	5,940.90	359.10
Administrative Fee	2,100.00	2,100.00	2,100.00	-
Maintenance Supplies	7,100.00	5,850.00	4,517.92	1,332.08
Maintenance - Building	2,500.00	2,300.00	1,831.33	468.67
Maintenance - Vehicle	6,500.00	6,700.00	6,661.81	38.19
Miscellaneous	1,500.00	1,500.00	1,240.54	259.46
Capital Outlay	2,000.00	1,200.00	-	1,200.00
Debt Service - Principal	13,720.00	13,720.00	13,718.00	2.00
Debt Service - Interest	2,180.00	2,180.00	2,124.45	55.55
<u>Total Expenditures</u>	<u>103,210.00</u>	<u>103,210.00</u>	<u>96,660.93</u>	<u>6,549.07</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	-	-	6,469.14	6,469.14
<u>Other Financing Sources</u>				
Operating Transfers In (Out)	-	-	-	-
<u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u>	-	-	6,469.14	6,469.14
<u>Fund Balance - Beginning of Year</u>	-	-	52,982.01	52,982.01
<u>Fund Balance - End of Year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,451.15</u>	<u>\$ 59,451.15</u>

Brown City Area Fire Authority

Required Supplemental Information

Budgetary Comparison Schedule

Equipment Reserve Fund

For The Year Ended March 31, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<u>Revenues</u>				
Equipment Reserve Fees				
Burnside Township	\$ 3,870.00	\$ 3,870.00	\$ 3,870.00	\$ -
Flynn Township	2,400.00	2,400.00	2,400.00	-
Lynn Township	900.00	900.00	900.00	-
Maple Valley Township	3,500.00	3,500.00	3,500.00	-
City of Brown City	2,500.00	2,500.00	2,500.00	-
Interest	2,050.00	2,050.00	2,754.25	704.25
Donations	-	-	-	-
Sale of Fixed Assets	-	-	-	-
Other Revenue	-	-	-	-
	<u>15,220.00</u>	<u>15,220.00</u>	<u>15,924.25</u>	<u>704.25</u>
<u>Total Revenues</u>	<u>15,220.00</u>	<u>15,220.00</u>	<u>15,924.25</u>	<u>704.25</u>
<u>Expenditures</u>				
Miscellaneous	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Expenditures</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	15,220.00	15,220.00	15,924.25	704.25
<u>Other Financing Sources</u>				
Operating Transfers In (Out)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u>	15,220.00	15,220.00	15,924.25	704.25
<u>Fund Balance - Beginning of Year</u>	15,220.00	15,220.00	84,943.39	69,723.39
<u>Fund Balance - End of Year</u>	<u>\$ 30,440.00</u>	<u>\$ 30,440.00</u>	<u>\$ 100,867.64</u>	<u>\$ 70,427.64</u>

Other Supplemental Information

Brown City Area Fire Authority
Other Supplemental Information
Schedule of Indebtedness
March 31, 2007

Fire Hall Construction

Dated October 13, 1993

Original Issue \$163,500

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Outstanding March 31,</u>		<u>Remaining Annual Interest Payable</u>
		<u>2007</u>	<u>2006</u>	
4.50%	5/1/2006	\$ -	\$ 13,718	\$ -
4.50%	5/1/2007	14,357	14,357	1,485
4.50%	5/1/2008	15,003	15,003	839
4.50%	5/1/2009	3,612	3,612	164
<u>Total Revenue Bonds</u>		<u>\$ 32,972</u>	<u>\$ 46,690</u>	<u>\$ 2,488</u>